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C O N F I D E N T I A L SECTION 01 OF 02 KABUL 005427

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DEPT FOR SCA FRONT OFFICE (DAS EB FOR A/S SULLIVAN,
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DEPT FOR ISN/ECC:JCOLLINS
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SUBJECT: DEPUTY FINANCE MINISTER SHAHRANI - CORRUPTION IS
UNDERMINING BUDGET SUSTAINABILITY

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Classified By: AMB RONALD NEUMANN for reasons 1.4(b) and (d).

1.(C) SUMMARY: Deputy Finance Minister Wahidallah Shahrani told ECON Counselor that corruption in Customs, the Interior Ministry, and among local governors is a limiting factor to revenue collection, threatening Afghanistan's effort to achieve budget sustainability. In some cases, private tolls charged by MOI border police commanders and provincial governors are threatening customs revenue collections. The lack of transparency and accountability in governors' private operating budgets is a corrupting influence. Shahrani, a member of the GOA's anti-corruption committee, asserted that the Finance Ministry's internal audit division would be actively deployed to fight corruption by reviewing government agencies' records. END SUMMARY.

2.(C) DFM Shahrani opened his October 30 meeting with ECON Counselor with an apology for his late arrival because the meeting of the GOA's anti-corruption committee, chaired by the Chief Justice, had run long. He explained that the committee is working on a report due to President Karzai in early November. The committee, he said, has identified five sources of corruption:

- a) Nepotism;
- b) Top GOA officials involving themselves in day-to-day government activities;
- c) Low government salaries;
- d) Too many government offices;
- e) Powerful private individuals wielding undue influence over government officials.

3.(C) Shahrani highlighted corruption among Customs officials, throughout the Interior Ministry, and local officials as causing serious problems for the Finance Ministry and the GOA in general. Nepotism is rampant in the

Herat and Islam Qalah Customs offices. He claimed that 70% of the staff is from the same lineage group, and asserted that this may be a factor in a recent case in which 700 vehicles crossed the border from Iran without stopping at the border customs post. Shahrani prescribed establishing a transparent hiring process as the solution to the problem. In response to ECON Counselor's suggestion that following through with the establishment of the Border Management Initiative interministerial committee could provide effective leadership, Shahrani agreed, but lamented that a breakdown in communication between Customs and the interior Ministry has prevented consensus on the basic question - which ministry will chair the committee.

4.(C) At the root of the problem, Shahrani asserted, is the corrupt behavior of interior ministry officials. He stated plainly that the internal financial management of the interior ministry is a complete mess. It is "rife" with irregularities, he added. Border Police commanders in some provinces are stopping commercial traffic and assessing \$10 per truck private tolls. (Reftel noted that the Border Police in Kunduz province are allegedly diverting traffic away from the official border customs post by charging fee rates lower than official tariffs.) According to Shahrani, governors in Jalalabad, Ghazni, and Kandahar have followed suit. He added that the Finance Ministry is not receiving expenditure reports on the special operating budgets provided to the governors of these three southern and eastern provinces. Shahrani noted that since these special allocations began, the security situation in the south has worsened. He has also heard that ambitious individuals have resorted to "unethical behavior" as they sought gubernatorial appointments in the south. (COMMENT: Whether individuals subsequently received appointment is unclear. END COMMENT.)

5.(C) In closing, Shahrani emphasized that the MOF's Internal Audit division, which is responsible for reviewing the

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accounting records of government ministries and agencies, would soon be aggressively deployed in the anti-corruption campaign. He noted that a young, western-educated Afghan with the family name of Sabit (a nephew of the Attorney General) heads the office.

6.(C) COMMENT: Shahrani, a crisp, precise speaker, surprised us by opening the meeting with a well-prepared, tightly-woven presentation on the GOA's anti-corruption efforts, including accusations against several government officials. Shahrani is well aware of USG interest in this subject and that future USG assistance could be endangered if there isn't progress on anti-corruption. He may want to divert attention from the MOF since squabbling with the MOI has laid ample blame on each side. Clearly, the Finance Ministry is worried that corruption will undermine revenue collection and the GOA's ability to achieve budget sustainability. The fact that the MOF's primary anti-corruption unit, the Internal Audit division, is led by a nephew of Attorney General Sabit suggests the Finance Ministry will support the Attorney General's and GOA's effort to fight corruption. END COMMENT.

NEUMANN